



CALPINE CORPORATION

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By Electronic and Hand Delivery

Yakout Mansour:
Governing Board Members:

First, let me wish you, your staff and your families a wonderful holiday season.

I will not be able to attend today's Board meeting in person, as I am otherwise obligated to travel. However, I would like to comment on agenda item 4 of your General Session, the Initiatives Release Plan.

Calpine is disappointed with the recommendation that implementation of Multi-Stage Generation (MSG) modeling be deferred to the fall of 2010.

This deferral is being recommended without an explicit recognition of any violation of a "critical path" element – an important criterion identified by Governor Capuano at the last Board meeting. The effect of the approval of this recommendation will be to force Calpine (and presumably all other similarly-situated entities) to bid its assets one more summer in a manner which avoids CAISO commitment and dispatch. This prospect increases our risk, reduces the CAISO's optimization options, and raises costs for all.

The extension of forbidden operating region (FOR) functionality into real time is an ineffectual alternative for Calpine. While FOR would avoid a dispatch at an infeasible operating point, it would fail to recognize key parameters, such as min run times, min down times and the start costs of embedded generators. Operating a combined-cycle power plant (the majority of Calpine's roughly 5000 MW fleet), even with forbidden regions, would require an implausible amount of administrative intervention. This administrative burden would distract Calpine dispatchers from their primary obligations of safety and reliability.

Calpine understands that implementing FOR would not distract the modelers from the ultimate task of MSG modeling. As such we do not oppose this dedication of resources to FOR functionality. Nonetheless, if Calpine, or combined-cycle operators, are intended to be the beneficiaries of this effort, please be aware that FOR is unlikely to change our bid behavior.

Calpine is, and will remain, ready for market trials as soon as the software is ready for testing. If you choose to delay the MSG Go-Live, we ask that the market trials move forward as soon as possible, with sufficient time for full evaluation and remediation, if needed. We would seek your clear and convincing commitment to support no further delays beyond fall 2010.

Thank You,

Mark J Smith